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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE CELESTICA INC. SECURITIES LITIGATION	**Civil Action No.: 07-CV-00312-GBD**

EXPERT REPORT OF VINITA M. JUNEJA, PH.D.

AUGUST 6, 2013

from a stock price reaction connected to results of operations or internal control issues other than those related to the Restructuring involving shifting operations to Mexico.

III. IF THE FINDER OF FACT AGREES WITH THE FREID REPORT, MR. COFFMAN'S ALLEGED DAMAGES ANALYSIS MUST BE ADJUSTED; HOWEVER, EVEN ASSUMING FULL LIABILITY, MR. COFFMAN IGNORES CONFOUNDING INFORMATION

29. The Freid Report concludes that "Celestica's management operated consistently with standard EMS industry practices during the Class Period, and the public statements made by Celestica Inc., Steve Delaney, and Anthony Puppi about Celestica's inventory, restructuring activities, and operational performance were at all times throughout the Class Period consistent with the information available to them."[38] Under this assessment, there would be zero liability and no alleged inflation during the Alleged Class Period.

30. Even assuming liability, there is confounding news that was released on a number of the alleged disclosure dates that Mr. Coffman has not properly considered, causing his calculation of price declines due to corrective disclosures to be overstated.

A. January 27, 2006

31. After hours on January 26, 2006, Celestica reported 4Q05 results and 1Q06 guidance in a press release and corresponding conference call.[39] Celestica reported revenue for the fourth quarter of $2.075 billion, up 4% from the third quarter and down 11% on a year-over-year basis, and a GAAP net loss of $28 million or $0.12 per share for the fourth quarter, including pretax restructuring and other charges of $57 million.[40] Adjusted net earnings were $29 million or $0.13 per share for the quarter.[41] In terms of guidance, Celestica expected revenue for 1Q06 to be between $1.8 and $2 billion, with the midpoint reflecting seasonal

[38] Freid Report, ¶15.

[39] Celestica press release, January 26, 2006.

[40] Celestica conference call, January 26, 2006.

[41] Celestica conference call, January 26, 2006.

decline.[42] Adjusted EPS for 1Q06 was expected to be between $0.04 and $0.12, aligned with the revenue range.[43]

32. Celestica stated that profitability in the fourth quarter was affected by "transfer activities, new program ramps, and changes in customer demand," while the Company experienced "modest" seasonality.[44] The Company also confirmed a statement on their 3Q05 conference call that pointed to restructuring charges at the high end of the original $225 – 275 million estimate.[45] Additionally, the Restructuring in Europe was progressing slowly and the Company took additional losses in the region for the fourth quarter.[46] The Company attributed weakness in 1Q06 to end-markets/seasonality and the continued effects of transfer activities and new program ramps.

1. Mr. Coffman's Approach

33. Mr. Coffman concludes that this announcement resulted in a statistically significant stock price decline on January 27, 2006 of $0.43 per share.[47] Mr. Coffman states that the allegedly corrective information released that is related to Plaintiffs' allegations includes weak 4Q05 profitability and 1Q06 guidance resulting from struggles with the Restructuring at the Monterrey plant.[48] Mr. Coffman assumes liability for the whole drop and "did not find any negative information released on this day that was substantially unrelated to disclosures of problems with the ongoing Restructuring."[49]

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[42] Celestica conference call, January 26, 2006.

[43] Celestica conference call, January 26, 2006.

[44] Celestica conference call, January 26, 2006.

[45] Celestica conference call, October 20, 2005.

[46] Celestica press release, January 26, 2006. The Company reported a loss in Europe of $5.4 million for the quarter.

[47] Coffman Report, ¶133.

[48] Coffman Report, ¶¶125, 126, and 128. Mr. Coffman specifically cites the conference call, which attributed the Q4 decline to "'higher-than expected costs incurred in one of our Americas plants' due to transferring in of current customer accounts, the 'ramping up' of new accounts, and changes in demand" and Orion Securities, which attributes poor Q1 guidance to "ongoing costs in major program transfers and new product ramp in the Americas, which will cause most of the negative impact in the first quarter." Mr. Coffman states that "the news that the Monterrey plant was struggling with the Restructuring was a partial disclosure of Celestica's inability to execute the Restructuring Plan."

[49] Coffman Report, ¶134.

2. Mr. Freid's Assessment of Case Documents Supports a Conclusion that the Allegedly Corrective Disclosures on January 27, 2006 Were Timely

34. Mr. Freid states that prior to 4Q05, "The documents show that, throughout the first three quarters of 2005, the AMORs [Americas Monthly Operations Review] reflected generally normal conditions from the Americas sites."[50] During 2005, Monterrey did not meet its target goals for delivering products to certain customers on time, but "when alerted to such problems… Celestica's management, like the management of any other EMS company, determined the underlying causes… and put in place corrective actions that, given the extensive resources of the company and history of expeditiously resolving complex operating problems, they reasonably expected to resolve the issues within one or two quarters."[51] Further, Mr. Freid states, "the problems that were raised in these MORs [Monthly Operating Reports] relating to restructuring, inventory, and CMX's operational issues were not significant in light of Celestica's global enterprise."[52]

35. Management continued to review the Monthly Operating Reports ("MORs") and their announcement of issues at Monterrey on the January 26, 2006 conference call marked a timely disclosure of relevant information. "By the fourth quarter of 2005, however, it became clear that the corrective actions taken in the third quarter would need more time to resolve the problems at CMX…. After discovering in the fourth quarter of 2005 that the corrective actions taken to resolve CMX's problems would take longer than expected, on January 26, 2006 CEO Delaney and CFO Puppi disclosed to the public that there were planning mistakes made related to the restructuring efforts and, as a result, customer satisfaction levels have decreased."[53]

36. According to Mr. Freid, Celestica did have a sufficient restructuring plan in place and issues that Plaintiffs point to on this date with respect to the Restructuring were really issues with operations at Monterrey and not the Restructuring, as discussed in Section II.A. While Mr. Coffman assumes liability, he states that "CLS had no basis to claim that it had its 'arms around the mistakes,' it would restore efficiencies by the second quarter, or that it would

[50] Freid Report, ¶50.

[51] Freid Report, ¶51.

[52] Freid Report, ¶53.

[53] Freid Report, ¶54.

restore efficiencies during any quarter during the Class Period."[54] In contrast, Mr. Freid has performed an analysis of Celestica's case documents based on his experience in the EMS industry and notes that Celestica was justified in expecting that Monterrey would be successful, even after experiencing operational problems, as it did in this quarter, as discussed in Section II.B.

3. Even Assuming Liability, Mr. Coffman Ignores Confounding Information

37. Although Mr. Coffman does "not find any negative information released on this day that was substantially unrelated to disclosures of problems with the ongoing Restructuring,"[55] there is new information disclosed by the company and concerns discussed by analysts that are unrelated to Plaintiffs' allegations.[56] This information includes:

a. Weak 1Q06 revenue guidance due to weak end-markets.

b. Program ramp-up costs.

c. Concerns over market share loss from customers who are not mentioned in Plaintiffs' allegations.

d. European profitability issues.

38. Mr. Coffman has neglected to account for the impact of this new information, which is unrelated to the allegations, on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

a. Weak 1Q06 Revenue Guidance Due to Weak End-Markets

39. On the 4Q05 conference call, Celestica management reported guidance for 1Q06 "revenue to be between $1.8 billion and $2 billion, with the midpoint reflecting what we would consider a seasonal decline."[57] This outlook for 1Q06 revenue disappointed analysts. For example, Bear Stearns stated in its Outlook section that "CLS's guidance was once again uninspiring at $1.8-$2.0B (down 8% Q/Q at the midpt) and $0.04-$0.12 (vs. our previous est of

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[54] Coffman Report, ¶128.

[55] Coffman Report, ¶134.

[56] Counsel have directed me to assume for the purpose of my analysis that Plaintiffs cannot claim as damages any alleged inflation derived from a stock price reaction connected to results of operations or internal control issues other than those related to the Restructuring involving shifting operations to Mexico.

[57] Celestica conference call, January 26, 2006.

$0.11 and [first call] of $0.14) which reflects more than expected seasonality and program transitions."[58] Deutsche Bank attributed at least a portion of the weak guidance to weak end-market demand. In particular, Deutsche Bank expressed concern: "Celestica continues to battle with share losses (storage, etc), poor execution (Avaya), and a sluggish end demand environment for higher-end products."[59] This analyst specifically distinguished between "poor execution" and "sluggish end demand environment."

40. Mr. Coffman uses a CIBC report to illustrate his point that "seasonality and end-user demand were in line with expectations."[60] This CIBC report stated that in terms of 1Q06 revenue guidance, "at the mid-point, this outlook is consistent with normal seasonality and the peer group…."[61] However, Mr. Coffman fails to mention that CIBC did not see revenue in-line with expectations, as CIBC stated, "We have adjusted our forecast to the midpoint of the guidance range or $1.9 billion from our previous estimate of $2.0 billion."[62] CIBC revised its 1Q06 revenue guidance and changed their assumption from "flat end markets" to "weak end markets." In the "Our Forecast is Refined" section of their report, CIBC seemed to have adjusted for the disclosure of weak end-markets as it stated:

> Our estimates assume: 1) **weak end markets**; 2) modest single digit sequential revenue growth year-over-year reflecting new program wins; and 3) restructuring benefits on a quarterly basis with an emphasis on the 2H/06 (emphasis added).

41. Whereas in the previous report published a few days before (on January 24, 2006), CIBC stated:

> Our Q1 outlook assumes flat rev. growth: Rev. of $2B and EPS of $0.14. This outlook reflects: 1) **flat end markets**; 2) modest restructuring benefits on the bottom line; 3) IBM's and HPQ's slight growth should offset LU's weak results[63] (emphasis added).

42. On January 24, 2006, CIBC expected flat revenue growth between 4Q05 and 1Q06 (expected revenue of $2 billion for both 4Q05 and 1Q06, consistent with the midpoint of

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[58] "Operating Margins Heading the Wrong Way, Program Transition Issues Persist, and Europe Remains A Problem; Reiterate Underperform," *Bear Stearns*, January 26, 2006.

[59] "Poor Execution and Share Losses Continue," *Deutsche Bank*, January 26, 2006.

[60] Coffman Report, ¶131.

[61] "Q4 Was In Line; The Q1 Guidance Was Below Estimates Due To Ramp Up Expenses," *CIBC World Markets*, January 26, 2006.

[62] "Q4 Was In Line; The Q1 Guidance Was Below Estimates Due To Ramp Up Expenses," *CIBC World Markets*, January 26, 2006.

[63] "CLS Outlook Is Flat In Short Term, But Well Positioned For End Market Recovery," *CIBC World Markets*, January 24, 2006.

Celestica's 4Q05 guidance from the previous quarter of $1.9 – $2.1 billion). The announcement on January 26, 2006 of revenue guidance for 1Q06 between $1.8 and $2.0 billion, with the midpoint reflecting a "seasonal decline," was unexpected, leading CIBC to lower their guidance.[64]

43. Mr. Coffman has not shown that the weak 1Q06 revenue guidance was related to Plaintiffs' allegations. On the 4Q05 conference call, Celestica management attributed at least a portion of the 1Q06 guidance, which was below analyst expectations, to a seasonal revenue decline, while Mr. Coffman attributes the whole price drop on this day to news of "problems with the ongoing restructuring."[65] To the extent that consumer seasonality was unexpected, it should be adjusted for in Mr. Coffman's alleged inflation per-share calculations. Mr. Coffman has neglected to account for the impact of weak revenue guidance from weak end-markets or seasonality on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

b. Program Ramp-Up Costs

44. Celestica management cited ramp-up costs outside of Monterrey, stating that "[t]he other factor that did affect profitability in Europe was the ramping of an important consumer program, and one other program in the quarter."[66] Mr. Puppi stated that this "wasn't a significant cost, but it certainly impacted the sequential profitability marginally." Several analysts reacted to the announcement of unexpected ramp-up. Merrill Lynch decomposed the 1Q06 guidance in the following excerpt: "CLS expects Q1 sales of $1.8-2.0 billion (vs. our $2.0 billion) and EPS of $0.04-0.12 (vs. our prior $0.13). The earnings disappointment is due in part to the aforementioned Mexico issues [program transfers to Mexico, resulting disruption to restructuring initiatives, new program ramps, and changes in customer demand late in the

[64] Additionally, before Celestica's 4Q05 conference call, on January 26, 2006, Kaufman Bros. stated in their earnings preview, "Due to a muted December quarter, we are not expecting a meaningful sequential decline in sales for the March quarter as currently reflected in our estimates." However, after Celestica's earnings results, Kaufman Bros. lowered their 1Q06 revenue guidance as well. "4Q05 Earnings Preview," *Kaufman Bros.,* January 26, 2006.

[65] Coffman Report, ¶134.

[66] Celestica conference call, January 26, 2006. Management also states on the call, "While I won't give specific customer names these new wins include a major consumer win with a Japanese OEM that will be ramping in both the Americas and in Europe, and multiple new programs in some major aerospace and communications companies."

quarter], continued losses in Europe and new program ramp-up costs."[67] TD Newcrest attributed the "execution hiccup relating to the transfer of production out of the USA" as only "a small part of the Q1 issue. The much bigger issue was that Celestica won a large piece of consumer business late in the year, and this business is ramping quickly. This is adding some unusual (and unexpected) costs to the quarter."[68]

45. Also, to the extent that any ramp-up costs in Monterrey would have occurred even if Celestica had not initiated the Restructuring in January 2005, the impact of these ramp-up costs should be excluded from any alleged inflation. Ramp-up costs may have been incurred in Monterrey regardless of the Restructuring. For example, TD Newcrest "[reminded] readers that it is normal to lose some money in the first quarter of producing a new product."[69] Mr. Coffman has neglected to account for the impact of ramp-up costs (either outside of Monterrey or costs that may have been incurred in Monterrey regardless of the Restructuring) on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

c. Potential Market Share Loss

46. On the 4Q05 conference call, Celestica management attributed 4Q05 sequential revenue decline to "product transitions" in the storage segment. Several analysts suggested that product transitions were a sign of potential market share loss in this segment. For example, Deutsche Bank stated, "Celestica continue[d] to battle with share losses (storage, etc), poor execution (Avaya), and a sluggish end demand environment for higher-end products."[70] EMC in particular, a customer in the storage segment, was mentioned by analysts as a possible source of market share loss for Celestica. EMC's strong outlook for their 4Q05 quarter announced on January 26, 2006 was at odds with Celestica's weak storage segment. Thomas Weisel questioned whether EMC was shifting business to other firms: "Storage was the one area of notable weakness, declining 13% q/q. The company blamed product transitions, but we wonder if EMC is shifting business to other EMS firms."[71] Bear Stearns was also concerned

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[67] "Still Looking For Light at the End of the Tunnel," *Merrill Lynch*, January 27, 2006.

[68] "New Business Wins Make-Up for Q1 Guidance," *TD Newcrest*, January 27, 2006.

[69] "New Business Wins Make-Up for Q1 Guidance," *TD Newcrest*, January 27, 2006.

[70] "Poor Execution and Share Losses Continue," *Deutsche Bank*, January 26, 2006.

[71] "Revenue Growth on the Horizon, but the Takeoff is Bumpy; Maintain Outperform," *Thomas Weisel Partners*, January 26, 2006.

about share loss with EMC: "We believe there is a strong likelihood that Celestica is losing some of its share at EMC to Jabil which continues to see storage upside and has a growing relationship with EMC."[72] Mr. Coffman has not shown that potential issues with EMC were related to Plaintiffs' allegations and has neglected to account for the impact of analyst concerns of potential market share loss from EMC on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

d. European Profitability Issues

47. On the January 26, 2006 conference call, Mr. Puppi stated, "In Europe, operating margins were a negative 1.5%, and the region continues to be impacted by revenue challenges in the higher costs – regions of the geography and restructuring benefits which have yet to flow through."[73] In addition, he announced that two of the three facilities announced for closure in Europe are still in the "midst of being closed." Uncertainty was prevalent in analyst expectations with regards to the progress of the Restructuring in Europe. Bear Stearns expressed concerns in Europe this quarter, commenting on expanding losses in the region: "Furthermore, Celestica's European restructuring is progressing very slowly with two France facilities still needing to be closed. We anticipate this could take five or more months to complete and meanwhile the region continues to suffer expanding losses."[74] Bank of America noted, "Europe remained the weakest region with operating margin declining to -1.5% (down 40bps) due to soft demand trends, program ramps, and slow restructuring progress… CLS had similar program transfer issues a couple of years ago in its restructuring in Europe, which took more than a few quarters to sort out."[75] Europe's continued losses in 4Q05 had at least one analyst concerned enough to attribute at least a portion of the earnings disappointment in 1Q06 to European Restructuring. Merrill Lynch, on January 27, 2006, stated, "CLS expects Q1 sales of $1.8-2.0 billion (vs. our $2.0 billion) and EPS of $0.04-0.12 (vs. our prior $0.13). The earnings disappointment is due in part to the aforementioned Mexico issues [program transfers to Mexico, resulting disruption to restructuring initiatives, new program ramps, and changes in customer demand late in the quarter], **continued losses in Europe** and new program ramp-up

[72] "Operating Margins Heading the Wrong Way, Program Transition Issues Persist, and Europe Remains A Problem; Reiterate Underperform," *Bear Stearns*, January 26, 2006.

[73] Celestica conference call, January 26, 2006.

[74] "Operating Margins Heading the Wrong Way, Program Transition Issues Persist, and Europe Remains A Problem; Reiterate Underperform," *Bear Stearns*, January 26, 2006.

costs"[76] (emphasis added). Mr. Coffman has neglected to account for the impact of additional European profitability issues on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

e. Positive Confounding News

48. On its January 26, 2006 conference call, Celestica reported that it had won new business in the quarter, stating, "While I won't give specific customer names these new wins include a major consumer win with a Japanese OEM that will be ramping in both the Americas and in Europe, and multiple new programs in some major aerospace and communications companies."[77] While these wins would lead to ramp-up costs in the quarter, analysts saw these wins as potential offsets to losing business elsewhere. For example, Morgan Stanley stated, "on a more positive note, the company is ramping what we estimate is probably $300-[$]400 million of Xbox 360 business in late Q1 and into Q2…. Although management noted another $100 – [$]200 million in new program wins to ramp in 2006, we believe these will be offset by other program losses."[78]

49. In addition, Celestica management also reported, "[M]odest revenue recovery after what was a weak third quarter. In the quarter we saw sequential growth of about 4% which is a small rebound in IT volumes specifically in our server segment."[79] Revenue in 4Q05 was $2.075 billion[80] compared to guidance of $1.9 to $2.1 billion.[81] Bank of America noted that most end markets grew sequentially and that "[i]n particular, double digit Q/Q growth in servers was primarily driven by new product launches at key OEMs."[82] To the extent that positive surprises were unrelated to the allegations, Mr. Coffman has not adjusted for their impact in his calculation of alleged inflation.

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[75] "More Margin Setbacks," *Bank of America*, January 27, 2006.

[76] "Still Looking For Light at the End of the Tunnel," *Merrill Lynch*, January 27, 2006.

[77] Celestica conference call, January 26, 2006.

[78] "Misexecution Offsets Improving Environment," *Morgan Stanley*, January 26, 2006.

[79] Celestica conference call, January 26, 2006.

[80] Celestica conference call, January 26, 2006.

[81] Celestica press release, October 20, 2005.

[82] "More Margin Setbacks," *Bank of America*, January 27, 2006.

B. October 27, 2006

50. After trading hours on October 26, 2006, Celestica reported 3Q06 results and 4Q06 guidance in a press release. Celestica reported 3Q06 revenues of $2.392 billion, net loss on a GAAP basis of $42.1 million or $0.19 per share, and adjusted net earnings of $40.5 million or $0.18 per share.[83] The press release stated that "[i]ncluded in GAAP net loss for the quarter are charges of $82 million associated with previously announced restructuring plans."[84] Celestica's 4Q06 guidance was for "revenue to be in the range of $2.25 billion to $2.45 billion, and adjusted earnings per share to range from $0.15 to $0.23."[85]

51. Celestica held a conference call to address the financial results, also after trading hours on October 26, 2006. The conference call included, among other information disclosed, the following news: (a) the largest component of the Restructuring charge in 3Q06 was "$61 million related to the sale of our Vimercate, Italy operation," (b) the total Restructuring charges planned would "now approximate $300 million," (c) a $6 million inventory charge "relating to a physical inventory variance at one of our sites in the Americas," (d) reflected in 4Q06 guidance was a "sequential seasonal decline of our consumer business," (e) "lower than expected improvement in our Mexico operation , which [incurred] losses of approximately $7 million" in 3Q06, and (f) continued losses in Europe in 3Q06, which "remain[ed] flat, at roughly $6 million"[86] vs. the previous expectation of breakeven results.[87]

1. Mr. Coffman's Approach

52. Mr. Coffman concludes that this announcement resulted in a statistically significant stock price decline on October 27, 2006 of $1.44 per share.[88] Mr. Coffman states that the allegedly corrective information released that is related to Plaintiffs' allegations includes:

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[83] Celestica press release, October 26, 2006.

[84] Celestica press release, October 26, 2006.

[85] Celestica press release, October 26, 2006.

[86] Celestica conference call, October 26, 2006.

[87] Celestica conference call, July 27, 2006. "BERNIE MAHON: Okay, and a question on Europe and the profitability there. So it's been unprofitable for little while now. But it sounds like you're kind of on a path to profitability there. What kind of timeframe do you think it is before we get to break even there? Do think it's in the fourth quarter that it's seasonally strong or do you think it's more of an '07 event? TONY PUPPI: We're targeting the break even this quarter. BERNIE MAHON: Oh, in the September quarter? TONY PUPPI: That's correct."

a. An increase in planned Restructuring costs from a previous range of $250 – $275 million to an updated estimate of $300 million.[89]

b. A $6 million inventory write-down due to a physical inventory variance.[90]

c. Lowered 4Q06 guidance due to Monterrey and reduced end-user demand. Mr. Coffman alleges that reduced end-user demand was the result of failed execution and poor operational controls.[91]

53. Mr. Coffman also claims that "Plaintiffs assert that Defendants were aware of or were reckless in not knowing that its internal operational and financial controls were ineffective and incapable of handling a Restructuring of this nature and that it had an insufficient Restructuring plan. If Plaintiffs' allegations are correct, then market price declines caused by the disclosure of continuing and expected losses due to creation of 'unstable conditions' that were caused by the 'complexity... put in place, without the appropriate planning' represent losses caused by the alleged misrepresentations and omissions."[92] Mr. Coffman states that he considers no confounding information and "include[s] the full abnormal return on this day as revealing artificial inflation."[93]

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[88] Coffman Report, ¶159.

[89] Coffman Report, ¶143: "This $82 million in Restructuring charges also brought the grand total of charges to $280 million – which exceeded the high-end of the originally announced plan, and CLS indicated there would be more charges in Q4 2006 so that the total would rise to $300 million. This new information was the first time the Company acknowledged that the Restructuring would cost more than planned and, if Plaintiffs' claims are accurate, led to investor losses that are causally tied to their allegations."

[90] Coffman Report, ¶¶146 and 148: "In addition, the Company announced that a plant in the Americas had suffered a $6 million inventory write-down due to a physical inventory variance (i.e., the inventory was missing)…. When further pressed by a Citigroup analyst about whether the inventory issue would raise internal control concerns under Sarbanes-Oxley, Mr. Puppi said, 'No, we have remediated the issue, so that will not be a factor.' However, the internal control and inventory issues would continue. If Plaintiffs' claims of prior misrepresentations and omissions regarding internal controls related to inventory are accurate, the market reaction to this information also reflects investor losses causally tied to the alleged misrepresentations and omissions."

[91] Coffman Report, ¶149: "Furthermore, CLS lowered its guidance for Q4 2006. In particular, Celestica's Q4 guidance reflected a 2% decline in revenue and 14% decline in EPS relative to previous projections primarily due to continued difficulties in Mexico and 'reduced end-user demand.' For reasons described above, any market price declines associated with the continued difficulties in Mexico are appropriately considered as corrective of the alleged misstatements and omissions. In addition, CLS's internal documents demonstrate that the lowered guidance due to end-user demand was really the result of failed execution and poor operational controls."

[92] Coffman Report, ¶145.

[93] Coffman Report, ¶158.

2. Mr. Freid's Assessment of Case Documents Supports a Conclusion that the Allegedly Corrective Disclosures on October 27, 2006 Were Timely

a. The Increased Expected Restructuring Charges

54. Mr. Coffman assumes that the entire increase in expected Restructuring costs is related to Plaintiffs' allegations. However, Celestica management stated on the conference call that the "largest component of this restructuring charge [taken in 3Q06] was $61 million related to the sale of our Vimercate, Italy operation."[94] Mr. Freid assesses the increase in projected Restructuring costs by saying that Celestica was "now including a major site in Italy not originally in the plan…."[95] The allegedly corrective disclosure of new expected charges coming from the sale of the Vimercate, Italy operation is, in fact, an example of "defendants disclos[ing] any necessary extensions in restructuring scope, schedule and charges within a reasonable time of such changes becoming known to them."[96]

55. As discussed in Section II.A, Mr. Freid concludes that to the extent that any increase in restructuring costs that factored into the updated range of projected restructuring costs disclosed on this date that were within the original Restructuring plan, these costs were disclosed in a timely manner and should be understood within the context of the industry and the "rough estimate" nature of the original projected range.

b. The $6 Million Inventory Write-Down

56. Plaintiffs and Mr. Coffman have not shown that Celestica fraudulently concealed the need for the inventory provision in Reynosa. Further, as discussed in Section II.B, the Freid Report concludes that "Celestica did not have high levels of excess of obsolete inventory subject to a write-down."[97] Mr. Freid's analysis appears to indicate that the announcement of the $6 million inventory write-down at Reynosa is a timely announcement because it was disclosed in the earnings results for 3Q06 and the Freid Report has no mentions of specific inventory issues at the Reynosa facility prior to 3Q06 (as shown in Exhibit D of the

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[94] Celestica conference call, October 26, 2006.

[95] Freid Report, ¶59.

[96] Freid Report, ¶72.

[97] Freid Report, ¶¶63-70.

Freid Report).[98,99] Exhibit D details Mr. Freid's review of Americas Monthly Operations Review Reports, Communications Global Customer Business Unit MORs, board of director reports, quarterly earning conference call transcripts, and public financial statements, within which are included reports and information on the Reynosa facility.[100] The lack of discussion of such issues in Mr. Freid's review of internal documents indicates that the disclosure of the inventory write-down is consistent with the fact that Plaintiffs and Mr. Coffman have not shown that the inventory charge in Reynosa that was disclosed in the 3Q06 results was not a timely disclosure.

57. It is my understanding from Counsel that the Reynosa inventory charge was a separate and isolated issue from the Restructuring at Monterrey, and that the company took corrective actions following the determination of the inventory charge. To the extent that the finder of fact determines that this charge is unrelated to the alleged fraud or any internal control alleged fraud, there should be no alleged inflation regarding this inventory charge.

c. Lowered 4Q06 Guidance due to Monterrey and Reduced End-Market Demand

58. As discussed in Section II.B, The Freid Report opines that Celestica was justified in expecting that Monterrey would be successful, even after experiencing operational issues. This would apply to any operational issues that precipitated the losses in Monterrey that negatively affected 3Q06 results and 4Q06 guidance and potentially affected customer satisfaction and demand, consistent with Mr. Freid's assessment that at "the third-quarter earnings release conference call in October 2006, Delaney and Puppi made detailed statements consistent with conditions known to them at that time."[101] Mr. Freid notes that prior to the October 26, 2006 alleged disclosure in "the second quarter of 2006, the problems at CMX with inventory management and growth continued to negatively impact Celestica…. There continued to be mixed news in the MORs, though: CMX achieved its highest revenue ever, but

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[98] Freid Report, Exhibit D, Communications GCU Monthly Operating Reports, Sept-06 Noteworthy Information under Low Lights: "Unplanned - Motorola Reynosa."

[99] Freid Report, Exhibit D, Board of Directors Quarterly Meetings, Q3- 2006 under General: "Reynosa financial and business operations major issues."

[100] Freid Report, ¶48.

[101] Freid Report, ¶59.

the issues were mounting to the point that more aggressive action was needed."[102] Furthermore, Mr. Freid states, "Internal reports continued to indicate some progress on resolving the inventory issues, and there was no recognition in MORs or the reports to the board then that the restructuring plan would be overrun significantly. And based on the documents, it appears that Celestica's C-level executives were still working to remedy the problems at CMX."[103]

59. According to Mr. Freid, the mix of positive and negative information in the second quarter of 2006 meant that "[b]y the third quarter of 2006, Celestica's executives recognized that CMX's operational and inventory issues were not being resolved under the focused corrective actions, and that additional aggressive actions were required.... It is not unusual for an EMS company to modify corrective actions after the problem persists for a quarter or two. EMS companies regularly deal with major issues and fully expect that the corrective actions will resolve them within a quarter or two."[104] Mr. Freid's testimony is consistent with the conclusion that Celestica disclosed in a timely manner the operational issues that precipitated the losses in Mexico, which in turn negatively affected 3Q06 results and 4Q06 guidance and potentially affected customer satisfaction and demand.

3. Even Assuming Liability, Mr. Coffman Ignores Confounding Information

60. Although Mr. Coffman claims that the "entire price decline on this day was causally related to the alleged misrepresentations and omissions,"[105] there is new information disclosed by the company and concerns discussed by analysts that are unrelated to Plaintiffs' allegations.[106] This information includes:

a. A portion of the increase in expected restructuring charges (to $300 million total).

[102] Freid Report, ¶56.

[103] Freid Report, ¶56.

[104] Freid Report, ¶58.

[105] Coffman Report, ¶159.

[106] Counsel have directed me to assume for the purpose of my analysis that Plaintiffs cannot claim as damages any alleged inflation derived from a stock price reaction connected to results of operations or internal control issues other than those related to the Restructuring involving shifting operations to Mexico.

b. A portion of the weak 4Q06 revenue guidance due to reduced end-market demand.

c. Concerns over market share loss from customers who are not mentioned in Plaintiffs' allegations.

d. European profitability issues and a failure to reach break-even EBIAT in 3Q06.

61. Mr. Coffman has neglected to account for the impact of this new information on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

a. The Increase in Expected Restructuring Charges

62. Prior to the issuance of 3Q06 results, Celestica had stated that the Restructuring program would come in at the high end of the initial $225 – $275 million range.[107] In the conference call on October 26, 2006, Celestica updated this range, saying that they expected "on the back of the higher than originally estimated accounting charges for the Italy restructuring and a few additional actions, that our total charge will now approximate $300 million." Internal documents with supplemental information on 2Q06 and 3Q06 financial results support that Italy was responsible for the majority of the increase in projected Restructuring costs from 2Q06 to 3Q06 (as discussed in Section III.B.2). *Exhibit 3* shows that between 2Q06 and 3Q06 financial results, projected costs for Restructuring in 2005 – 2007 increased by $18 million on net (from $271 million to $289 million), with Italy accounting for $12 million of that increase. It is my understanding from Counsel that certain items in the Restructuring are potentially related to Plaintiffs' allegations regarding Monterrey, namely certain regions in the Americas. *Exhibit 3* shows that, on net, the items in the Restructuring that are potentially related to Plaintiffs' allegations accounted for $7 million of the total $18 million increase from 2Q06 to 3Q06. The remaining $11 million of the total $18 million

[107] See, for example: "We announced our program at the beginning of the year, and estimated restructuring charges of 225 to $275 million…. We believe we will migrate to the higher end of the range considering the end market pressure" (Celestica conference call, October 20, 2005). "In terms of restructuring update as of the end of the year...the balance of the $275 million program is to be incurred in 2006" (Celestica conference call, January 26, 2006). "In terms of a restructuring update as of the end of March, we have recorded $177 million and [sic] $275 million program announced in 2005" (Celestica conference call, April 27, 2006). "In terms of restructuring update as of June 30, we have recorded $197 million of the $275 million program announced in 2005" (Celestica conference call, July 27, 2006).

increase from 2Q06 to 3Q06 is unrelated to Plaintiffs' allegations. Mr. Coffman has neglected to account for the impact of this $11 million increase in expected restructuring costs on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

Exhibit 3. Restructuring Update from 2Q06 to 3Q06

b. Reduced End-Market Demand

63. Mr. Coffman states with respect to end-market demand, "Celestica's customers, which provided the source of end-user demand, were doing better than expected, so any reported downturn in CLS's business would unlikely be due to industry demand."[108] In this claim, Mr. Coffman acknowledges that potential weakness in end-market demand is an external factor. However, not all news about Celestica's customers was positive. Desjardins Securities noted, "Celestica's two largest customers, IBM and Cisco, have reported encouraging results. Lucent surprised the market earlier this week with better-than-expected mobility (wireless) results, but suggested the upcoming quarters may be adversely affected by the pending Alcatel merger. The situation at Sun and HP remains somewhat more mixed...."[109]

64. In Mr. Coffman's claim that "lowered guidance due to end-user demand was really the result of failed execution and poor operational controls,"[110] he cites issues with two customers: Cisco[111] and Panasonic.[112] However, an internal presentation dated October 25, 2006 addressing 3Q06 financial results, indicates lower than expected demand from three customers in 4Q06 guidance: Panasonic, IBM, and Sun; Cisco is not mentioned in this document.[113] This slide quantifies the total reduction in revenue as $120 million between the three customers. Even if one were to assume liability for the reduction in demand from Panasonic, it is my understanding from Counsel that neither Plaintiffs nor Mr. Coffman have

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[108] Coffman Report, ¶139.

[109] "Great 3Q, but the recent share run-up and the 4Q outlook leave us feeling flat; downgrading to Hold (from Buy), maintaining US$12.50 target," *Desjardins Securities*, October 27, 2006. The report continues to note that with Sun, "1Q FY07 (Sep-06) revenues of US$3.19b were up 17% yoy, with 2Q revenues to grow in the high single digits. However, the restructuring program continues (product downsizing risk)" and regarding HP, "3Q FY06 (Jul-06)—although results have been improving, the company is currently dogged by the spy scandal."

[110] Coffman Report, ¶149.

[111] Coffman Report, ¶¶152-153.

[112] Coffman Report, ¶¶156-157.

[113] CEL00282208 at -18.

shown that reduction in demand from IBM or Sun were related to the allegations of "failed execution and poor operational controls." Additionally, this document indicates that 4Q06 revenue was expected to be down sequentially by $80 million due to consumer seasonality (although it does not specify the customers contributing to this decline).[114] To the extent that consumer seasonality was unexpected, it should be adjusted for in Mr. Coffman's alleged inflation per-share calculations.

65. *Exhibit 4* shows that analysts were aware of weakened demand affecting 4Q06 guidance. To the extent that any of this reduction in demand occurred as a result of seasonal factors or from specific customers who are not alleged to have reduced demand related to the allegations of "failed execution and poor operational controls,"[115] it should be considered confounding news. Mr. Coffman has neglected to account for the impact of this confounding news on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

Exhibit 4. Analyst Quotations Regarding Weakened Demand Affecting 4Q06 Guidance Following October 27, 2006 Alleged Disclosure

c. Potential Market Share Loss: Juniper, Lucent, and Nortel

66. Following the 3Q06 results, some analysts expressed concerns over potential market share loss from a number of customers, such as Cisco, Juniper, Lucent, and Nortel, and the impact it would have in 4Q06. For example, with respect to Lucent and Nortel, a Cowen and Company analyst said that "[o]ne benefit in the quarter in the communications space was the slower than expected shift of business from Lucent wireline and Nortel to Solectron and Flextronics, respectively. It's very common, when businesses are shifting around, to take longer than prior plans. This is what happened here and, at least for the 3Q, it benefited Celestica. However, we do believe these programs are moving out, and this effect is dampening 4Q somewhat."[116] A Bank of America analyst also noted that part of the "meaningful deceleration in growth" in 4Q06 guidance is "the completion of program transfers in telecom (NT and LU wireline to FLEX and SLR respectively)."[117]

[114] CEL00282208 at -18.

[115] Coffman Report, ¶149.

[116] "Good 3Q, Progress Made, More to Go," *Cowen and Company*, October 27, 2006.

[117] "Solid 3Q06 Results; Muted Guidance," *Bank of America*, October 27, 2006.

67. In addition to mentions of potential new market share loss of Lucent and Nortel, some analysts expressed uncertainty about the effect of the loss of business with Cisco and Juniper. For example, a Citigroup analyst commented "recently there have been announcements that some customer relationship as we know may be shifting. First, Juniper starting to use Flextronics whereas previously Juniper used Plexus and Celestica. Second, Cisco starting to use Flextronics whereas previously Cisco used Solectron, Celestica, Sanmina, Jabil and Hon Hai. While the magnitude of such information is difficult to determine, one thing is for certain: additional EMS companies to incumbents are in general not good for the incumbents."[118] These announcements, combined with losses in 3Q06, lead to analyst concern over 4Q06 guidance. A Credit Suisse analyst noted that Celestica "now hints to material customer defections" including "customer departures in enterprise (we believe Cisco) and communications (possibly Juniper)."[119]

68. While Cisco has been alleged to have expressed complaints about operational issues at Monterrey, it is my understanding from Counsel that neither Plaintiffs nor Mr. Coffman have shown that any potential market share loss from Juniper or Nortel is related to the allegations. Regarding Lucent, the Freid Report notes that Plaintiffs allege that Lucent transferred product lines out of Monterrey due to operational issues but he concludes that "Celestica's performance issues with Lucent existed before the Class Period…. Despite these problems, I have not seen any evidence that Lucent's decision to transfer the Anymedia and 5ES product lines out of CMX was due to Celestica's performance."[120] To the extent that the finder of fact agrees with Mr. Freid's assessment that Lucent's transfer of product lines out of Monterrey was not due to Celestica's performance, analyst concerns about market share loss with Lucent should be considered confounding news. Mr. Coffman has neglected to account for the impact of analyst concerns of potential market share loss with Juniper, Nortel, or Lucent on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

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[118] "CLS: Celestica's Results Not as Clean as Press Release Appears," *Citigroup*, October 27, 2006.

[119] "Q3 Results," *Credit Suisse*, October 27, 2006.

[120] Freid Report, ¶¶99-100.

d. European Profitability Issues

69. In the conference call for 2Q06 results, Celestica expressed the expectation that both Mexico[121] and Europe[122] would reach the break-even point in EBIAT in 3Q06 after multiple quarters of losses. In the conference call for 3Q06, Celestica informed investors that both Mexico and Europe recorded continued losses in the quarter and indicated that neither region would reach break-even in 4Q06.[123] *Exhibit 5* shows that analysts were surprised by this development and adjusted their expectations so that they did not expect European operations to reach the break-even point until sometime in 2007. For example, a Longbow Research analyst commented that "losses in Mexico are expected to continue into 1H07, while we aren't forecasting Europe will breakeven until 2H07."[124] The analyst commentary in *Exhibit 5* shows that concerns after the 3Q06 conference call over how long it would take for Europe to reach the break-even point are comparable to concerns over the same question in Mexico. Mr. Coffman has neglected to account for the impact of additional European profitability issues and failure to reach break-even EBIAT in 3Q06 on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

Exhibit 5. Analyst Quotations Regarding Profitability Issues in Europe Following October 27, 2006 Alleged Disclosure

[121] Celestica conference call, July 27, 2006. "CHRIS UMIASTOWSKI: Is that $0.02 you picked up Mexico related or plant closure related? TONY PUPPI: In plant closures, so I was referring to restructuring... So that's the track we're on that hasn't changed, and we expect that the balance of that 40% will be realized. Why it's not flowing to the bottom line completely is the other issues. In that, we had a $0.05 impact where we thought we should be in terms of the Mexico situation. That improved by $0.02 this quarter, probably improve another $0.03 next quarter."

[122] Celestica conference call, July 27, 2006. "BERNIE MAHON: Okay, and a question on Europe and the profitability there. So it's been unprofitable for little while now. But it sounds like you're kind of on a path to profitability there. What kind of timeframe do you think it is before we get to break even there? Do think it's in the fourth quarter that it's seasonally strong or do you think it's more of an '07 event? TONY PUPPI: We're targeting the break even this quarter. BERNIE MAHON: Oh, in the September quarter? TONY PUPPI: That's correct."

[123] Celestica conference call, October 26, 2006. "STEVEN FOX: And then looking forward, Tony, so are you saying that break-even for Mexico is not possible until sometime early next year? Or how would you describe the timing of that now? TONY PUPPI: That's exactly what I would say. More work to do in that site. We expect improvements, but we won't get there this quarter." See also: "LOUIS MISCIOSCIA: Okay. And then on Europe-- so I think you mentioned that all of your restructuring is basically done. So it really just comes down to a demand issue. And if that is the case, I guess, what are the prospects for I guess, the pipeline or bookings for Europe as you look forward over the next of quarters? STEVE DELANEY: There are a number of opportunities that we are chasing right now for Europe to improve it. They'll work in, depending on the gestation period of the opportunities, but I'm not going to give a quarter at this point. LOUIS MISCIOSCIA: Okay, but it sounds like it's probably going to take a number of quarters, as there is always a sales cycle associated with this -- ? STEVE DELANEY: Sure."

[124] "Lingering Operational Issues Pressure 4Q," *Longbow Research*, October 27, 2006.

e. Positive Confounding News

70. In the press release with 3Q06 results, Celestica reported, "Revenues were very strong sequentially and year over year driven primarily by the growth realized in our consumer segment. Other segments were solid as well in this seasonally lower quarter."[125] Revenue in 3Q06 was $2.392 billion[126] compared to guidance of $2.15 – $2.35 billion.[127] In the conference call, Mr. Delaney clarified that Celestica reported 3Q06 EPS was within the guidance range[128] despite the $7 million loss in Mexico due to the "revenue upside" in the third quarter.[129] Under the "positives" portion of the summary in a Citigroup report, the analyst noted, "Reported Sales and EPS better than expected, Sales outlook better than expected, Consumer strength for the company is impressive and helping with diversification."[130] To the extent that positive surprises were unrelated to the allegations, Mr. Coffman has not adjusted for their impact in his inflation calculations.

C. November 28, 2006

71. After trading hours on November 27, 2006, Celestica announced that Mr. Delaney was "resigning from Celestica to pursue other business interests" and that Mr. Delaney would be replaced by Celestica's current President, Mr. Muhlhauser.[131]

1. Mr. Coffman's Approach

72. Mr. Coffman concludes that this announcement resulted in a statistically significant stock price decline on November 28, 2006 of $0.41 per share.[132] The Coffman Report states that "Many analysts expressed surprise at the timing of Delaney's exit, given that the ambitious Restructuring project that he spearheaded was scheduled to be nearing

[125] Celestica press release, October 26, 2006.

[126] Celestica press release, October 26, 2006.

[127] Celestica press release, July 27, 2006.

[128] 3Q06 guidance was for adjusted EPS ranging from $0.12 to $0.20 (Celestica press release, July 27, 2006). Celestica reported 3Q06 adjusted EPS of $0.18 (Celestica press release, October 26, 2006).

[129] Celestica conference call, October 26, 2006. "LOUIS MISCIOSCIA: And then you expected, I thought you said, to get to Mexico to break-even this quarter. And you actually didn't, it was another 7 million loss. Well, to hit your EPS number, there must have been some upside that offset this? STEVE DELANEY: It is the revenue upside that we had in the third quarter."

[130] "CLS: Celestica's Results Not as Clean as Press Release Appears," *Citigroup*, October 27, 2006.

[131] Celestica press release, November 27, 2006.

[132] Coffman Report, ¶167.

completion…. Some analysts also interpreted his departure to be symptomatic of the struggling Restructuring and signs that the Restructuring was not on schedule."[133]

2. Mr. Freid's Assessment of Case Documents Supports a Conclusion that the Allegedly Corrective Disclosure on November 28, 2006 Was Timely

73. Even if Mr. Delaney's resignation as CEO was related to Plaintiffs' allegations, it follows from Mr. Freid's conclusions that Mr. Delaney's resignation should not be included in a measure of alleged inflation. The Freid Report concludes that "Celestica's management operated consistently with standard EMS industry practices during the Class Period," and that "the public statements made by Celestica Inc., Steve Delaney, and Anthony Puppi about Celestica's inventory, restructuring activities, and operational performance were at all times throughout the Class Period consistent with the information available to them."[134]

74. Further, CEO resignations during company restructurings in the EMS industry were not uncommon, according to the Freid Report. The Freid Report describes how most EMS companies undertook restructuring after 2001, and because restructurings are "extremely complicated, expensive, time-consuming, and dynamic processes… [a]s restructuring costs dragged on from year to year, several EMS CEOs resigned."[135]

3. The Allegedly Corrective Disclosure on November 28, 2006 May Not Have Revealed Any Information Regarding the Alleged Fraud

75. Even assuming liability, if the finder of fact determines that there is no corrective information in the CEO's resignation, this date should not be included in any measure of inflation. For example in *In re Omnicom Group, Inc. Sec. Litig.*,[136] the company's audit committee chairman resigned "amid questions he had raised for months regarding [a transaction involving fraudulent accounting]... [and] whether the board had received full information about the initial Seneca transaction."[137] After the resignation, Omnicom's stock price fell as negative media reports came out regarding potential accounting issues at

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133 Coffman Report, ¶¶162-163.

134 Freid Report, ¶15.

135 Freid Report, ¶¶24 and 26.

136 *In re Omnicom Group, Inc. Sec. Litig.*, 597 F.3d 501 (2d Cir. 2010).

137 *In re Omnicom Group, Inc. Sec. Litig.*, 597 F.3d 501 (2d Cir. 2010) at 511.

Omnicom.[138] However, as the court noted, "[N]one of these [reported matters] even purported to reveal some then-undisclosed fact with regard to the specific misrepresentations alleged in the complaint concerning the [transaction]."[139] The court stated, "Fraud may lead to a director's resignation… and to negative stories by the [media]. In such circumstances, it is generally the facts underlying the fraud and resignation that causes a compensable investor's loss."[140]

76. Even assuming liability for the allegedly corrective information announced on this date, if the finder of fact determines that there is no corrective information contained specifically in the CEO's resignation, any price decline attributed to the CEO's resignation on this date should not be included in any measure of inflation.

D. December 12, 2006

77. Before trading hours on December 12, 2006, Celestica released a press release with an update to its 4Q06 guidance and held a conference call the same morning to discuss the updated guidance. Celestica reported that it "now expects revenue in the range of $2.20 to $2.25 billion, and adjusted net earnings per share of $0.00 to $0.06. The company's previous guidance for the fourth quarter, which was provided on October 26, 2006, was for revenue of $2.25 to $2.45 billion and $0.15 to $0.23 adjusted net earnings per share."[141] The press release explained that "[t]he revision in revenue is due to recent demand reductions from several customers. Included in the revised adjusted net earnings per share is an expected net charge of between $0.08 to $0.12 resulting predominantly from an increase in inventory provisions at the Monterrey, Mexico facility."[142]

1. Mr. Coffman's Approach

78. Mr. Coffman concludes that this announcement resulted in a statistically significant stock price decline on December 12, 2006 of $1.11 per share.[143] Mr. Coffman states

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[138] *In re Omnicom Group, Inc. Sec. Litig.*, 597 F.3d 501 (2d Cir. 2010) at 505-06.

[139] *In re Omnicom Group, Inc. Sec. Litig.*, 597 F.3d 501 (2d Cir. 2010) at 511.

[140] *In re Omnicom Group, Inc. Sec. Litig.*, 597 F.3d 501 (2d Cir. 2010) at 513-514.

[141] Celestica press release, December 12, 2006.

[142] Celestica press release, December 12, 2006.

[143] Coffman Report, ¶175.

that the allegedly corrective information released that is related to Plaintiffs' allegations includes:

a. An inventory charge of $0.08 – $0.12 per share resulting from an increase in inventory provisions at Monterrey.[144]

b. Lowered 4Q06 revenue guidance from $2.25 – $2.45 billion[145] to $2.20 – $2.25 billion due to recent demand reductions from several customers.[146]

c. Lowered 4Q06 EPS guidance from $0.15 – $0.23 to $0.00 – $0.06 based on (a) and (b) above.[147]

79. Mr. Coffman also claims that he "found no other confounding negative information released on this day" and that he "attribute[s] the full abnormal price decline of $1.11 (after controlling for market and industry factors) to the corrections of the misrepresentations and omissions."[148]

2. Mr. Freid's Assessment of Case Documents Supports a Conclusion that the Allegedly Corrective Disclosures on December 12, 2006 Were Timely

a. The Inventory Charge

80. The Freid Report's conclusion regarding the inventory charge announced on this date is consistent with the statement made by Celestica that the need for the inventory charge was caused by the reduced demand.[149] Mr. Freid opines that he has "seen no evidence in the

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[144] Coffman Report, ¶¶168 and 176. "I understand Plaintiffs expect to prove the inventory charges announced on this day materialized as a result of Celestica's ongoing execution failures and the lack of effective internal controls that had been misrepresented from the beginning of the Class Period. If Plaintiffs' allegations are correct, this disclosure represents CLS-specific news that is causally related to the misrepresentations and omissions."

[145] Celestica conference call, October 26, 2006.

[146] Coffman Report, ¶¶168 and 174. "Indeed, internal documents confirm that the lower than expected demand was the result of customer defections due to operating problems, not due to broader economic or industry trends."

[147] Coffman Report, ¶¶168 and 170. "The Company now told the market it expected revenue of $2.20 billion to $2.25 billion, 5% lower than its October 26, 2006 projections, and adjusted net earnings per share of $0.00-0.06 which was 84% lower than the prior projection based upon additional inventory charges."

[148] Coffman Report, ¶176.

[149] Celestica conference call, December 12, 2006. "On the adjusted EPS front, the inventory provisions that we are establishing relate to our Monterey operations. With reduced demand and as we get a better understanding of operations and the material management at the site, it has become apparent that we have a situation where we have ordered more material than what was required by our customers."

documents that defendants knew of an inventory write-down risk greater than that which was reserved until early in December 2006" and that "[a]lthough before this time, C-level executives knew of the levels of excess and obsolete inventory, that does not mean they were aware, or should have been aware, that such inventory must be or will be written off in excess of the reserve amount."[150] Mr. Freid summarizes the situation as follows:

> What is demonstrated by the documents and testimony I have reviewed is that on December 8, 2006, a revised revenue forecast was released that demonstrated a severe decline in demand. (CEL00225931). This led C-level executives to research whether there was any potential inventory liability…. What they discovered, as companies often do, is that in some instances it would be difficult or impossible to prove that the excess and obsolete inventory actually belonged to customers. (CEL00033454 at -3457). This, combined with the significant demand drop, informed C-level executives for the first time of a potential write-off. The Disclosure Committee met on December 11, 2006, and there was a board conference call regarding the pre-announcement on December 12, 2006. (CEL00189025). After that, CLS pre-announced a change in guidance. (CEL00189031).

b. The Reduction in Demand

81. As discussed in Section II.B, the Coffman Report summarizes that Plaintiffs allege that "the Company knew and failed to admit that… key customers would disengage some or all of their business from Monterrey"[151] as a result of operational issues at Monterrey. The Freid Report notes that the "documents show that CMX suffered from operational issues during the Class Period that affected some of its customer relationships,"[152] yet that does not mean that Celestica could have foreseen the operational issues that eventually would affect customer relationships. If one accepts Mr. Freid's conclusion that Celestica was "justified in expecting that Monterrey would be a successful site, even after Monterrey began experiencing operational problems,"[153] Celestica would not have been able to know definitively that operational issues would affect customer relationships.

E. January 31, 2007

82. After trading hours on January 30, 2007, Celestica reported 4Q06 results and 1Q07 guidance in a press release. Celestica reported 4Q06 revenues of $2.262 billion, net loss

[150] Freid Report, ¶¶67, 69, and 70.

[151] Coffman Report, ¶117.

[152] Freid Report, ¶90.

on a GAAP basis of $60.8 million or $0.27 per share, and adjusted net earnings of $6.5 million or $0.03 per share.[154] The press release stated that "[i]ncluded in GAAP net loss for the quarter are the following items: a net charge to gross profit of $30 million resulting primarily from a previously announced increase in inventory provisions at the Monterrey, Mexico facility, and a $59 million restructuring charge."[155] Celestica's 1Q07 guidance was for "revenue to be in the range of $1.7 billion to $1.9 billion, and adjusted net loss per share to range from $(0.15) to $(0.04)."[156] The press release also indicated that Mr. Puppi "announced his intention to retire from Celestica" and would "continue to act in the capacity of Chief Financial Officer until the company's search for a new CFO is complete."[157]

83. Celestica held a conference call to address the financial results on January 31, 2007 at 8:00 am. The conference call included, among other information disclosed, the following news: (a) "operational execution issues in Mexico over the past 12 months have resulted in over $75 million of losses for EBIT losses for 2006 and $46 million for the fourth quarter from [Monterrey]," (b) "disengagements with some customers" due to a "loss of customer confidence," (c) detail on the complexities of the attempt "to implement an accelerated transfer plan" at Monterrey, (d) a three step plan to resolve issues at Monterrey, starting with working to "transfer at least six customers to our Asian facilities… by the end of second quarter of 2007," (e) a "previously announced $30 million net charge related to the inventory provision taken at [Monterrey]," (f) "an additional $60 million to $80 million of restructuring charges, $40 million of which was already taken in the fourth quarter… [to be completed] by the end of 2007," and that of the "approximately $340 million of restructuring charges during the past two years… $300 million relate to the program announced in January of 2005," (g) explanation that "the sequential decline [in 4Q06 revenues] was driven primarily by a sharp reduction in our telecom segment orders and the expected seasonality in our consumer business," (h) expected sequential decline in 1Q07 revenues , from 60% seasonality, 25% "recent broad weakness in the telecom [segment]," and 15% "customer disengagements and the implementation of a Lean supply chain by one of our communications customers," and

[153] Freid Report, ¶78.

[154] Celestica press release, January 30, 2007.

[155] Celestica press release, January 30, 2007.

[156] Celestica press release, January 30, 2007.

[157] Celestica press release, January 30, 2007.

(i) a loss in Europe in 4Q06 "of 2.9% or $9 million, due mainly to a lower mix of higher value-add business in the region and lower revenues than we initially expected in the quarter."[158]

1. Mr. Coffman's Approach

84. Mr. Coffman concludes that this announcement resulted in a statistically significant stock price decline on January 31, 2007 of $1.83 per share.[159] Mr. Coffman states that the allegedly corrective information released that is related to Plaintiffs' allegations includes:

a. An additional $60 to $80 million of charges, including unexpected charges taken in Q4, would be necessary for the "current Restructuring."[160] This included "an unexpected $59 million restructuring charge"[161] taken in the fourth quarter.

b. Mr. Coffman discusses how the "poor financial performance was directly related to the Restructuring and move to Mexico"[162] and that the Restructuring had "failed."[163]

c. A "surprise" increase in inventory provisions of approximately $7.5 million.[164]

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[158] Celestica conference call, January 31, 2007.

[159] Coffman Report, ¶187.

[160] Coffman Report, ¶184. "CLS projected that for the current Restructuring an additional $60 to $80 million of charges would be necessary, $40 million of which it booked in Q4 2006."

[161] Coffman Report, ¶178. I note that Mr. Coffman errs in stating that there was "an unexpected $59 million restructuring charge" taken in Q4. This is incorrect because Celestica had previously announced that it expected to take $300 million in restructuring charges through the end of FY 2006 and by the time of January 30, 2007 it had taken $280 million of that (Celestica conference call, October 27, 2006). Therefore, market participants would have expected Celestica to take a $20 million restructuring charge in Q4, so at most approximately $39 of the $59 million restructuring charge taken in this quarter would have been unexpected.

[162] Coffman Report, ¶¶179, 180, 181, 182, and 184. Mr. Coffman states, "CLS projected lower-than-expected Q1 2007 performance with revenues expected to fall in the $1.7 billion to $1.9 billion range and adjusted net loss per share from $(0.15) to $(0.04)." He further adds that the Celestica management "admitted that execution problems regarding the Restructuring and inventory control continued and that the Company had not been able to solve these issues" and that management showed what Mr. Coffman perceives as a "lack of a true plan for Restructuring." Mr. Coffman claims that the "Company's poor financial performance was directly related to the Restructuring and move to Mexico, as the Mexican operation resulted in EBIT losses of $75 million in 2006, 60% of which was incurred in the fourth quarter" and that "CLS's plan to remedy the situation in Mexico included additional restructuring which would involve transferring six accounts from Mexico to Asia."

[163] Coffman Report, ¶183. "The markets and analysts expressed their surprise that the Restructuring plan had clearly failed."

d. Celestica's CFO Mr. Puppi was resigning.[165]

85. Mr. Coffman states that he "did not find any negative information released on this day that was unrelated to the disclosure of the impacts of the failed Restructuring. If Plaintiffs prove that the failure of the Restructuring is causally related to Celestica's ongoing execution failures and the lack of effective operating and financial controls present since the beginning of the Class Period, the entire abnormal return on this day is related to Plaintiffs' allegations."[166]

2. Mr. Freid's Assessment of Case Documents Supports a Conclusion that the Allegedly Corrective Disclosures on January 30, 2007 Were Timely

a. The Increase in Expected Restructuring Charges

86. Mr. Coffman assumes liability for the impact of additional expected restructuring charges that were for a restructuring unrelated to the Restructuring announced at the beginning of the Alleged Class Period. However, a portion of the additional $60 to $80 million in expected restructuring charges were for an unrelated restructuring called Project New Year, which I understand from Counsel was focused on corporate headcount reductions and was not part of the Restructuring announced in early 2005. The Freid Report states:

> It appears from the documents that defendants kept the public regularly updated about the restructuring costs…. And finally, on January 30, 2007, after identifying new restructuring efforts during the fourth quarter of 2006, defendants publicly disclosed the charges it took that quarter and the charges it planned to take during 2007. ("In addition to the prior restructuring we now expect to incur an additional $60 million to $80 million of restructuring charges, $40 million of which was already taken in the fourth quarter." (Q4 2006 Earnings Call‖, *Thomson StreetEvents*, Jan. 31, 2007 at 4-5)). Most of the charges taken in the fourth quarter of 2006 and the charges planned to be taken in 2007 were related to reductions in force in Celestica's facilities in Canada, and not the Monterrey facility, and was in fact a new restructuring called "Project New Year". (*See* CEL00159578, CEL00216227 at -6229). Consequently, these charges would not have been included in the original estimates given by Celestica in January 2005 under standard industry practices.[167]

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[164] Coffman Report, ¶178. "The $30 million charge due to an increase in inventory provisions was a "surprise" of about $7.5 million, or just over 3 cents per share, as CLS had indicated the charge would be approximately $22.5 million just a few weeks earlier."

[165] Coffman Report, ¶177.

[166] Coffman Report, ¶188.

[167] Freid Report, ¶75.

87. In addition, any increase in restructuring costs that factored into the updated range of projected restructuring costs disclosed on this date that were within the original Restructuring plan should be understood within the context of the industry and the "rough estimate" nature of the original projected range (as discussed in Section VI.B.2.a of the Freid Report, "The Restructuring Charges That Were Publicly Announced on January 27, 2005 Were Only Rough Estimates"). As discussed in Section II.A of this report, Mr. Freid concludes that "defendants disclosed any necessary extensions in restructuring scope, schedule and charges within a reasonable time of such changes becoming known to them."[168]

b. The Restructuring Discussion

88. Mr. Coffman states that, after this announcement, "The markets and analysts expressed their surprise that the Restructuring plan had clearly failed and that further Restructuring was needed."[169] This is not consistent with Mr. Freid's opinion that the "restructuring efforts were a success,"[170] as discussed in Section II.A. Indeed, as Mr. Freid notes, "Celestica was able to consolidate its operations in the United States and transfer some of the business to Mexico at or near its scheduled timeframe. (Ex. D, Communications Analysis at 14). The problems that did occur were related to operational issues at CMX, and not the Restructuring. (Ex. D, Communications Analysis at 8 (showing Mexico receiving high ratings by Cisco, Ciena, Motorola and Cummins; Avaya supportive of transfer plan))"[171] As discussed in Section II.B, the Freid Report concludes that Celestica was "justified in expecting that Monterrey would be a successful site, even after Monterrey began experiencing operational problems."[172] This in turn implies that operational problems at Monterrey may have caused issues with the Restructuring and have influenced the poor financial results on January 31, 2007 beyond what the market had expected, but would not have been responsible for any inflation in the stock price.

89. Additionally, Mr. Freid notes that the "new CEO at Celestica described the seriousness of conditions at Monterrey including some corrective actions that were already

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[168] Freid Report, ¶72.

[169] Coffman Report, ¶183.

[170] Freid Report, ¶77.

[171] Freid Report, ¶77.

[172] Freid Report, ¶78.

underway: e.g., the decision to move six customers from CMX to Asia had been made in October. This disclosure was more detailed than is common in industry practice, but it is hardly unusual in the EMS industry for a new CEO to be somewhat negative in his first public statements so that any future upside is attributed to him."[173] Mr. Freid opines that Celestica's disclosures "about Celestica's inventory, restructuring activities, and operational performance were at all times throughout the Class Period consistent with the information available to them," so although more detail than normal may have been provided on this earnings announcement, Mr. Freid's assessment that this information was disseminated to the market in a timely manner remains unchanged.

c. The "Surprise" Increase in Inventory Provisions

90. Mr. Coffman states that "the $30 million charge due to an increase in inventory provisions was a 'surprise' of about $7.5 million, or just over 3 cents per share, as CLS had indicated the charge would be approximately $22.5 million just a few weeks earlier."[174] However, Mr. Coffman appears to compare a **pre-tax** $30 million charge[175] announced on January 30, 2007 to an **after-tax** expected charge, $22.5 million, to arrive at a "surprise of about $7.5 million." Thus, Mr. Coffman appears to incorrectly calculate his $7.5 million surprise. Comparing the $30 million pre-tax charge to the expected pre-tax charge of approximately $21 million – $31 million,[176] the figure is in-line with what was previously expected.

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[173] Freid Report, ¶60.

[174] Coffman Report, ¶178.

[175] The $30 million charge is disclosed as a pre-tax amount.

First, from Celestica's press release on January 30, 2007, the charge is to gross profit which indicates that the charge is pre-tax. Celestica announced in its 4Q06 press release: "a net charge to gross profit of $30 million resulting primarily from a previously announced increase in inventory provisions at the Monterrey, Mexico facility…."

Second, Celestica's SEC Form 20-F filing for the year ended 2006 included this $30 million charge as part of cost of sales, which is a pre-tax item. Page 31 of the Form 20-F filing cites $36 million in net inventory charges taken in the second half of 2006. The $36 million is comprised of the $30 million inventory charge announced for 4Q06 and the $6 million inventory charge announced for 3Q06 (Celestica conference call, January 31, 2007, Celestica conference call, October 26, 2006).

[176] This assumes a 14 percent tax rate used by most analysts and 227 million shares outstanding as of October 26, 2006. Eleven of the fourteen analysts from December 12, 2006 to December 13, 2006 that provided an expected tax rate for 4Q06 use 14 percent as the tax rate. The eleven analysts are: CIBC World Markets, Citigroup, Credit Suisse, GMP Securities, Jefferies & Company, Inc., JPMorgan, Lehman Brothers, Longbow Research, Morgan Stanley, RBC Capital Markets, and Thomas Weisel Partners.

91. Further, many analysts expected the $20 – $30 million range prior to the announcement, indicating that this charge was not outside the range of expectations. For example, on December 13, 2006, Lehman Brothers stated: "Included in the new EPS guidance is an inventory charge of $0.08-$0.12 (about $26M pre-tax) at the Mexican facilities for ordering more materials than required by customer demand."[177]

92. Even assuming that analysts were on average expecting the midpoint of $21 – $31 million, and that Celestica is liable for any amount above the midpoint that is still within the range, the surprise on this date would be equal to $3.6 million as opposed to Mr. Coffman's incorrect calculation of $7.5 million.

93. Further, management stated in its 4Q06 conference call, "[W]ithout this inventory charge… adjusted EPS would have been $0.14 per share"[178] as compared to the actual adjusted EPS of $0.03 per share, implying a $0.11 inventory impact. This $0.11 inventory impact is in-line with the pre-announcement on December 12, 2006 that Celestica expected a net charge to EPS of $0.08 – $0.12 resulting from an increase in inventory provisions.

94. Therefore, the $30 million pre-tax inventory charge taken on this date was within the range of guidance provided earlier by Celestica.

d. The CFO's Resignation

95. To the extent that Mr. Puppi's resignation as CFO was related to Plaintiffs' allegations, if one accepts Mr. Freid's conclusions, it follows that Mr. Puppi's resignation should not be included in a measure of alleged inflation. The Freid Report concludes that "Celestica's management operated consistently with standard EMS industry practices during the Class Period," and that "the public statements made by Celestica Inc., Steve Delaney, and Anthony Puppi about Celestica's inventory, restructuring activities, and operational performance were at all times throughout the Class Period consistent with the information available to them."[179]

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[177] "Celestica Disappoints Again," *Lehman Brothers*, December 13, 2006.

[178] Celestica conference call, January 31, 2007.

[179] Freid Report, ¶15.

96. In addition, Mr. Puppi's resignation itself may not have revealed any specific information regarding the alleged fraud. Even assuming liability for the allegedly corrective information announced on this date, if the finder of fact determines that there is no corrective information contained specifically in the CFO's resignation, any price decline attributed to the CFO's resignation on this date should not be included in any measure of inflation.[180]

3. Even Assuming Liability, Mr. Coffman Ignores Confounding Information

97. Although Mr. Coffman claims that he "did not find any negative information released on this day that was unrelated to the disclosure of the impacts of the failed Restructuring,"[181] there was news disclosed by the company and concerns discussed by analysts that were unrelated to Plaintiffs' allegations.[182] This information includes:

a. A portion of the increase in expected restructuring charges (an additional $60 – $80 million).

b. A portion of the weak 1Q07 revenue guidance due to seasonality, weak end market demand, lean supply chain customer, and customer disengagements unrelated to Plaintiffs' allegations.

c. Concerns over market share loss among customers not mentioned in Plaintiffs' allegations.

d. Additional European profitability issues.

98. Mr. Coffman has neglected to account for the impact of this new information on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

a. The Increase in Expected Restructuring Charges

99. As discussed in the previous section, Mr. Coffman states that an additional $60 to $80 million of charges would be necessary for the Restructuring. *Exhibit 6,* using internal

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[180] See *In re Omnicom Group, Inc. Sec. Litig.*, 597 F.3d 501 (2d Cir. 2010).

[181] Coffman Report, ¶188.

[182] Counsel have directed me to assume for the purpose of my analysis that Plaintiffs cannot claim as damages any alleged inflation derived from a stock price reaction connected to results of operations or internal control issues other than those related to the Restructuring involving shifting operations to Mexico.

documents with supplemental information on 3Q06 and 4Q06 financial results, shows that projected costs for restructuring in 2005 – 2007 increased by $59 million (from $289 million to $348 million) between 3Q06 and 4Q06. I have been informed by Counsel that certain items in the Restructuring are potentially related to the allegations regarding Monterrey, namely certain regions in the Americas. *Exhibit 6* shows that, on net, the items in the Restructuring that are potentially related to the allegations regarding Monterrey increased by $17.5 million from 3Q06 to 4Q06. The remaining $52.5 million of the total $70 million increase in expected restructuring costs from 3Q06 to 4Q06 (based on the midpoint of the $60 – $80 million range) is unrelated to Plaintiffs' allegations regarding Monterrey. Mr. Coffman has neglected to account for the impact of this $52.5 million increase in expected restructuring costs on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

Exhibit 6. Restructuring Update from 3Q06 to 4Q06

b. Weak 1Q07 Revenue Guidance

100. Not all of the weak 1Q07 revenue guidance is related to Plaintiffs' allegations. In the earnings release, management provided 1Q07 revenue guidance of $1.7 to $1.9 billion.[183] In the conference call, management disclosed that of the sequential revenue decline, seasonality represented 60%, recent broad weakness in the telecom segment represented 25%, customer disengagements represented 7.5%, and a customer implementing lean supply represented 7.5%.[184] Using the midpoint of the guidance, the sequential revenue decline from 4Q06 to 1Q07 is equal to approximately $462 million.[185] According to the Americas MOR for December 2006, revenue reductions anticipated from 4Q06 to 1Q07 in the Americas region totaled $152.3 million.[186] Based on my understanding from Counsel, the sum of revenue reductions detailed in the Americas MOR for December 2006 from customers who may have

[183] Celestica press release, January 30, 2007.

[184] Celestica conference call, January 31, 2007. The public statements in the conference call state that of the revenue decline, 15% was due to customer disengagements and a customer implementing lean supply. This is further broken out in response to an analyst question to be 7.5% customer disengagements and 7.5% lean supply.

[185] Celestica press release, January 30, 2007. $462 million is equal to $2.262 billion (actual 4Q06 revenue) less $1.8 billion (midpoint of 1Q07 revenue guidance).

[186] CEL00019509 at -29.

reduced demand related to the allegations is $86.6 million.[187] This would imply that $375.4 million[188] of the $462 million in expected sequential revenue decline in 1Q07 guidance is unrelated to the allegations.[189] Mr. Coffman has neglected to account for the impact of this $375.4 million expected sequential revenue decline on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

c. Potential Market Share Loss: Juniper, Lucent, and Nortel

101. In the conference call, Celestica specifically cited that "we lost the Lucent wireline business, we lost the Nortel acquisition that was acquired by Flex, so those would be the two material losses" and that they are "concluding this quarter."[190] In addressing analyst concerns about customer disengagements, Craig Mulhauser said that "the two biggest impacts have been the Lucent wireline decision and the Nortel decision, frankly, in the telecommunications space. The other ones are selective disengagements of smaller customers in most cases and, obviously, to some extent the complexity that they have brought to some of our sites on an economic basis did not make sense and was not profitable."[191] The Americas MOR for December 2006 shows disengagement with smaller customers at Monterrey, Radisys and Ciena, during 4Q06 and projected to be completed in 1Q07.[192] Analysts were unsure to what degree this market share loss could be related to issues at Monterrey. For instance, a Bear Stearns analyst commented that:

> We believe the problem at Celestica's Mexico facility was exacerbated by some customer loss. We disagree with management's assessment of the impact of lost business, especially as it relates to telecom. In our opinion, market share loss is driving much more than 15% of the Q/Q decline and we found it surprising that the programs

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[187] My understanding from Counsel is that Panasonic ($25.1), Avaya ($23.5), Motorola ($13.8), Radisys ($8.5), Ciena ($5.6), and Lucent ($10.1) fit this criterion. These total $86.6 million. Note that this includes $10.1 million from Lucent, which has been discussed as being unrelated to issues at Monterrey according to the Freid Report in Section III.B.3. Excluding Lucent, the total would be $76.5 million.

[188] $375.4 million is equal to the $462 million total minus the $86.6 million that is potentially related to the alleged fraud. If Lucent is determined by the finder of fact to be unrelated to the alleged fraud, $385.5 million of the $462 million in sequential revenue decline is unrelated to the allegations.

[189] Additionally, Mr. Coffman should consider the fact that analysts already anticipated part of the sequential revenue decline. Following the December 12, 2006 guidance update, to the extent that analysts updated their expectations of the sequential revenue decline expected for the 4Q06 period, one should appropriately take that revised expectation into account when calculating the surprise amount of the sequential revenue decline announced on January 30, 2007.

[190] Celestica conference call, January 31, 2007.

[191] Celestica conference call, January 31, 2007.

[192] CEL00019509 at -29.

> that management cited as losing (Lucent wireline and Nortel) are very old news and the transfers have essentially been completed. In our opinion neither FLEX or SLR is expecting much in the way of incremental transfers to them in the March qtr, whereas Celestica stated that its 20%+ Q/Q telecom decline is being further pressured by these disengagements. Management also alluded to industrial/defense/aerospace customer disengagements, which with the exception of Radisys were are not as aware of others. We are more concerned by Celestica losing market share with some of its key customers including Cisco, Juniper and Avaya. All these negative signs further confirm our concern over Celestica's long-term growth prospects.[193]

102. Juniper, Nortel, and Lucent are three customers that analysts expressed concern over losing market share with; these concerns are potentially confounding news. It is my understanding from Counsel that neither Plaintiffs nor Mr. Coffman have shown that any potential market share loss from Juniper or Nortel is related to the allegations. As discussed in Section III.B.3, while Mr. Freid notes that Plaintiffs allege that Lucent left Monterrey due to operational issues, he concludes that "Celestica's performance issues with Lucent existed before the Class Period…. Despite these problems, I have not seen any evidence that Lucent's decision to transfer the Anymedia and 5ES product lines out of CMX was due to Celestica's performance."[194] To the extent that the finder of fact agrees with Mr. Freid's assessment that Lucent's transfer of product lines out of Monterrey was not due to Celestica's performance, analyst concerns about market share loss with Lucent should be considered confounding news.

i. Juniper

103. As discussed in Section III.B.3, some analysts were concerned over potential market share loss with Juniper following the 3Q06 financial results. Some analysts further magnified these concerns following 4Q06 results. A Genuity analyst reported that "[g]oing into this quarterly results announcement, we were concerned about market share losses with key customers such as Cisco, Juniper, and Avaya. We believe the horrible forward revenue guidance somewhat validates these concerns, as the guidance far exceeds any normal seasonality."[195] Further, a Longbow Research analyst said that "risk lies… [with] further customer disengagements beyond those expected by management due to unhappiness with

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[193] "Has Celestica Bottomed Out?," *Bear Stearns,* January 31, 2007.

[194] Freid Report, ¶¶99-100.

[195] "Q4/06 results: First glance," *Genuity Capital Markets,* January 31, 2007.

production in Mexico or the results following production transfers to Asia or share losses such as with Juniper Networks since competitors will look to prey upon a weakened peer."[196]

ii. Lucent and Nortel

104. The uncertainty about the impact of losses from Lucent and Nortel to Celestica's competitors expressed by analysts following the 3Q06 results (discussed in Section III.B.3) materialized as significant losses in 4Q06. A Cowen and Company analyst called the losses of Lucent and Nortel "the single most contributing factor to the 28% q/q decline in Telecom"[197] and a Thomas Weisel Partners analyst said "the loss of major customers that had been expected (for instance, Lucent's wire-line business and Nortel)" was one of "several issues that could weigh on the stock."[198] A Credit Suisse analyst commented that Celestica "[l]ost LU wireline business, NT business acquired by Flex" among other comments in a table that shows 4Q06 revenues in the Telecom sector as $339.3 million, below their $445.5 million expectation.[199] It is noteworthy that some analysts expressed uncertainty about the full reason for the decline in Telecom, as a GMP Securities analyst stated that "we do not fully understand why telecom revenues are now forecast to be down 40% in F2007 half of its level in 2004 – even after factoring in the impact from Lucent and Nortel."[200] While this share loss may not explain the entirety of analyst concerns over the Telecom sector, it remains confounding information to some degree.

105. Mr. Coffman has neglected to account for the impact of analyst concerns of potential market share loss with Juniper, Nortel, or Lucent on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

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[196] "Management Takes a Tough Stance, But It's Going to be a Tough Fight," *Longbow Research,* January 31, 2007.

[197] "The Turnaround Plan Just Got a Lot Harder," *Cowen and Company,* February 1, 2007.

[198] "Amid Continued Problems in Mexico, Europe, CLS Faces Customer Losses, Many Challenges; Lowering Estimates and Rating," *Thomas Weisel Partners,* January 31, 2007.

[199] "Q4 Results," *Credit Suisse,* January 31, 2007.

[200] "Celestica reports in line Q4/F06 results but guides for a significantly lower Q1 and F2007, lowering target price to $8.00 from $15.00," *GMP Securities,* February 1, 2007.

d. European Profitability Issues

106. Celestica announced in the January 30, 2007 press release that EBIAT loss in Europe expanded from $5.6 million in 3Q06 to $8.7 million in 4Q06.[201] A Bear Stearns analyst commented prior to the conference call (which contained much of the detail on issues in Mexico) that they thought "the most troubling news came from Europe…. Celestica's European loss, increased to $8.7 million from $5.6 million, a disturbing 55% increase. Instead of getting close to breakeven, Celestica's European operation seems drifting toward another direction."[202] After the conference call, analysts frequently mentioned Europe along with Mexico as a concern. For instance, a Scotia Capital analyst stated that "[o]perational issues at the heart of the disappointment: Poor operations in Mexico and Europe continue to be at the heart of Celestica's problems. Fixing Mexico will take at least six months and Europe, after years of restructuring, is still not profitable."[203] A CIBC World Markets analyst comments that "[i]n order to improve efficiency in Mexico, the plan is to transfer 6 of the 16 programs out of that facility and into Asia to reduce some complexity at that plant. The weaker results in Europe were due to poor product mix and lighter revenue, which CLS hopes to resolve by increasing business at this site. These ongoing operational issues have resulted in a decline in our operating margin estimate for Q1/07 to -0.7% (prior 1.3%)."[204] *Exhibit 7* shows further examples that analysts were concerned about additional profitability issues in Europe. Mr. Coffman has neglected to account for the impact of additional European profitability issues and failure to reach break-even EBIAT in 3Q06 on Celestica's stock price and has failed to remove that impact from his calculation of alleged inflation.

Exhibit 7. Analyst Quotations Regarding Profitability Issues in Europe Following January 31, 2007 Alleged Disclosure

e. Positive Confounding News

107. There was also positive news disclosed on this date. According to the press release and conference call, 4Q06 revenue came in at $2.262 billion, above the high end of the

[201] Celestica press release, October 26, 2006; Celestica press release, January 30, 2007.

[202] "Celestica Gets A Reality Check; Downgrading to Underperform From Peer Perform," *Bear Stearns,* January 31, 2007 This report was published after the press release on January 30, 2007 but prior to the earnings conference call on January 31, 2007.

[203] "Q4: Guidance Disaster," *Scotia Capital*, January 31, 2007.

[204] "Q4 In Line But Q1 Outlook Falls Short Pushing Out Positive Earnings Leverage," *CIBC World Markets*, February 1, 2007.

revised guidance of $2.20 to $2.25 billion disclosed on December 12, 2006.[205] In particular, management announced on the conference call that the enterprise communications segment was up 2%, the server segment was up 19%, and storage was up 10% compared to 3Q06, while other sectors declined sequentially. Management commented that "[the server] segment came in somewhat stronger than [they] expected very late in the quarter."[206] Celestica also announced "a new program win with a large European telecom OEM that we will introduce into our Monterey facility in 2007,"[207] which was mentioned by some analysts.

108. To the extent that the new $60 to $80 million restructuring charges would provide previously unexpected restructuring benefits, the new restructuring could be considered as positive news. In the conference call, Mr. Puppi said that the additional restructuring charges should "get about $40 million of annualized costs out of the system."[208] However, based on analyst report review, analysts seem to respond negatively to the new restructuring. For example, National Bank Financial noted that they were "weary of such incremental, never-ending reductions that seem to deliver too little benefit too late."[209] Morgan Stanley noted that they "remain pessimistic, as management's previous restructuring efforts have not yielded results near the originally anticipated expected savings."[210] Deutsche Bank commented that "any benefits from restructuring achieved over the next few quarters will be mostly offset by pressure due to product mix and competitive pricing."[211] To the extent that positive surprises were unrelated to the allegations, Mr. Coffman has not adjusted for their impact in his calculation of alleged inflation.

IV. IF THE ALLEGED CLASS PERIOD SHOULD BEGIN ON AN ALTERNATIVE LATER DATE, THEN INFLATION PER SHARE WOULD BE ZERO PRIOR TO THIS DATE, ASSUMING LIABILITY

109. I am informed by Counsel that Defendants will present evidence supporting the assertion that even if Plaintiffs are able to prove all their qualitative allegations, the start of the

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[205] Celestica conference call, January 31, 2007; Celestica conference call, December 12, 2006.

[206] Celestica conference call, January 31, 2007.

[207] Celestica conference call, January 31, 2007.

[208] Celestica conference call, January 31, 2007.

[209] "Q4 Results Do you like double black diamond ski slopes?," *National Bank Financial,* February 1, 2007.

[210] "Challenging Outlook, " *Morgan Stanley,* January 31, 2007.